

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input checked="" type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name Watertown Charter Township	County Clinton
Audit Date December 31, 2004	Opinion Date February 11, 2005	Date Accountant Report Submitted to State: June 28, 2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

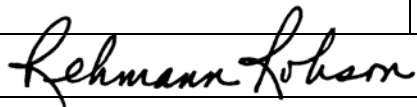
1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- | | |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> Yes <input type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	X		
Reports on individual federal financial assistance programs (program audits).			X
Single Audit Reports (ASLGU).			X

Certified Public Accountant (Firm Name) REHMANN ROBSON GERALD J. DESLOOVER, CPA			
Street Address 5800 GRATIOT, PO BOX 2025	City SAGINAW	State MI	Zip 48605
Accountant Signature 			

WATERTOWN CHARTER TOWNSHIP

Clinton County, Michigan

FINANCIAL STATEMENTS

**For the Year Ended
December 31, 2004**



REHMANN ROBSON

Certified Public Accountants

WATERTOWN CHARTER TOWNSHIP

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REHMANN ROBSON

Certified Public Accountants

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INDEPENDENT AUDITORS' REPORT

February 11, 2005

Board of Trustees
Watertown Charter Township
Grand Ledge, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of ***Watertown Charter Township, Michigan***, as of and for the year ended December 31, 2004, which collectively comprise the Township's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the Township's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of Watertown Charter Township, Michigan, as of December 31, 2004, and the respective changes in financial position and cash flows, where applicable, thereof and the budgetary comparisons for the general fund for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note IV.G., the Township adopted the provisions of Governmental Accounting Standards Board Statement Nos. 34, 37 and 38 and GASB Interpretation 6 as of and for the year ended December 31, 2004. This results in a change in the format and content of the basic financial statements.

The Management's Discussion and Analysis on pages 3-10 is not a required part of the basic financial statements but is supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Watertown Charter Township's basic financial statements. The combining fund financial statements listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly presented, in all material respects, in relation to the basic financial statements taken as a whole.

A handwritten signature in black ink, reading "Lehmann Johnson". The signature is written in a cursive, flowing style.

MANAGEMENT'S DISCUSSION AND ANALYSIS

Management's Discussion and Analysis

As management of the *Charter Township of Watertown, Michigan*, we offer readers of the Township's financial statements this narrative overview and analysis of the financial activities of the Township for the fiscal year ended December 30, 2004.

Financial Highlights

- The assets of the Township exceeded its liabilities at the close of the most recent fiscal year by \$10,365,538 (*net assets*). Of this amount, \$8,312,294 (*unrestricted net assets*) may be used to meet the government's ongoing obligations to citizens and creditors.
- The government's total net assets increased by \$3,305,465
- As of the close of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,682,343, an increase of \$83,331 in comparison with the prior year. Approximately 99 percent of this total amount, or \$1,663,895, is *available for spending* at the government's discretion (*unreserved fund balance*).
- At the end of the current fiscal year, unreserved fund balance for the general fund was \$1,257,469 or 42 percent of total general fund expenditures.
- The Township's total bonded debt decreased by \$246,335 during the current fiscal year; no new debt was issued. The Township paid off an installment loan of \$1,187,421 for the Looking Glass Regional Fire Authority building and equipment.
- The Township sold assets with a basis of \$76,812, 4% of its ownership share in Southern Clinton County Municipal Utilities Authority, resulting in a net gain of \$2,823,198.

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the Township's basic financial statements. The Township's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements, and 3) notes to the financial statements. This report also contains other supplementary information in addition to the basic financial statements themselves.

Government-wide financial statements. The *government-wide financial statements* are designed to provide readers with a broad overview of the Township's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the Township's assets and liabilities, with the difference between the two reported as *net assets*. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Township is improving or deteriorating.

The *statement of activities* presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, *regardless of the timing of related cash flows*. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., earned but unused vacation leave).

Both of the government-wide financial statements distinguish functions of the Township that are principally supported by taxes and intergovernmental revenues (*governmental activities*) from other functions that are intended to recover all or a significant portion of their costs through user fees and charges (*business-type activities*). The governmental activities of the Township include general government, public safety and public works. The business-type activities of the Township include sanitary sewer and water distribution operations.

The government-wide financial statements can be found on pages 11-13 of this report.

Fund financial statements. A *fund* is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The Township, like other state and local governments, uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements. All of the funds of the Township can be divided into three categories: governmental funds, proprietary funds, and fiduciary funds.

Governmental funds. *Governmental funds* are used to account for essentially the same functions reported as *governmental activities* in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on *near-term inflows and outflows of spendable resources*, as well as on *balances of spendable resources* available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for *governmental funds* with similar information presented for *governmental activities* in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures, and changes in fund balances provide a reconciliation to facilitate this comparison between *governmental funds* and *governmental activities*.

The Township maintains four individual governmental funds. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures, and changes in fund balances for the general fund, which is considered to be a major fund, and for the remaining three nonmajor funds in the aggregate.

The Township adopts an annual appropriated budget for its general and special revenue funds. Budgetary comparison statements have been provided herein to demonstrate compliance with those budgets.

The basic governmental fund financial statements can be found on pages 14-19 of this report.

Proprietary funds. *Enterprise funds*, the only proprietary fund type used by the Township, are used to report the same functions presented as *business-type activities* in the government-wide financial statements. The Township uses enterprise funds to account for its sanitary sewer and water distribution operations.

Proprietary funds provide the same type of information as the government-wide financial statements, only in more detail. The proprietary fund financial statements provide separate information for the sewer and water operations, both of which are considered to be major funds of the Township.

The basic proprietary fund financial statements can be found on pages 20-23 of this report.

Fiduciary funds. Fiduciary funds are used to account for resources held for the benefit of parties outside the government. Fiduciary funds are *not* reflected in the government-wide financial statements because the resources of those funds are *not* available to support the Township's own programs. The accounting used for fiduciary funds is much like that used for proprietary funds.

The basic fiduciary fund financial statements can be found on page 24 of this report.

Notes to the financial statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 25-41 of this report.

Government-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. In the case of Watertown Charter Township, assets exceeded liabilities by \$10,365,538 at the close of the most recent fiscal year.

Of the Township's net assets, \$1,769,707 (17.1 percent) reflects its investment in capital assets (e.g., land, buildings, systems, vehicles and equipment), less any related debt used to acquire those assets that is still outstanding. The Township uses these capital assets to provide services to citizens; consequently, these assets are *not* available for future spending. Although the Township's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

[Since this is the first year for which the Township adopted the provisions of GASB Statement No. 34, comparative data is not required. In future years, such information will be presented for the current and preceding year.]

Charter Township of Watertown's Net Assets

	Governmental	Business-type	
	activities	activities	Total
Current and other assets	\$ 2,747,718	\$ 7,135,288	\$ 9,883,006
Capital assets	143,137	4,787,075	4,930,212
Total assets	2,890,855	11,922,363	14,813,218
Long-term liabilities outstanding	107,783	3,160,505	3,268,288
Other liabilities	1,025,191	154,201	1,179,392
Total liabilities	1,132,974	3,314,706	4,447,680
Net assets:			
Invested in capital assets, net			
of related debt	143,137	1,626,570	1,769,707
Restricted	283,537	-	283,537
Unrestricted	1,331,207	6,981,087	8,312,294
Total net assets	\$ 1,757,881	\$ 8,607,657	\$ 10,365,538

In addition the Township owns assets in a joint venture with Eagle Township known as the Looking Glass Regional Fire Authority. Currently the Authority is funded primarily thru contributions from Watertown Charter Township (65%) and Eagle Township (35%). The Authority reported Capital assets (*net of depreciation*) of \$2,055,741 as of 12/31/04 for fixtures, building, equipment and land.

At the end of the current fiscal year, the Township is able to report positive balances in all three categories of net assets, both for the government as a whole, as well as for its separate governmental and business-type activities.

The government's net assets increased by \$3,305,465 during the current fiscal year. This increase is primarily attributable to the capital gain on the sale of capital investments in SCCMUA. A portion of the gain (29.4%) \$927,642 was transferred to governmental activities in order to provide funds to retire an installment loan for the fire authority building and equipment.

Charter Township of Watertown's Changes in Net Assets

	Governmental activities	Business-type activities	Total
Revenue:			
Program revenue:			
Charges for services	\$ 469,442	\$ 809,509	\$ 1,278,951
Operating grants and contributions	1,802	-	1,802
Capital grants and contributions	27,524		27,524
General revenue:			
Property taxes	896,957	-	896,957
Other	566,025	326,476	892,501
Special item:			
Gain on sale of investment in SCCMUA	-	2,823,198	2,823,198
Total revenue	<u>1,961,750</u>	<u>3,959,183</u>	<u>5,920,933</u>
Expenses:			
Legislative	35,741	-	35,741
General government	657,841	-	657,841
Public safety	665,546	-	665,546
Public works	273,077	-	273,077
Community and economic development	62,362	-	62,362
Recreation and cultural	85,305	-	85,305
Interest on long-term debt	23,903	-	23,903
Sewage disposal	-	578,569	578,569
Water extension	-	233,124	233,124
Total expenses	<u>1,803,775</u>	<u>811,693</u>	<u>2,615,468</u>
Increase in net assets before transfers	157,975	3,147,490	3,305,465
Transfers	<u>927,642</u>	<u>(927,642)</u>	<u>-</u>
Increase (decrease) in net assets	1,085,617	2,219,848	3,305,465
Net assets - beginning of year, as restated	<u>672,264</u>	<u>6,387,809</u>	<u>7,060,073</u>
Net assets - end of year	<u><u>\$ 1,757,881</u></u>	<u><u>\$ 8,607,657</u></u>	<u><u>\$ 10,365,538</u></u>

Governmental activities. Governmental activities increased the Township's net assets by \$157,975 (before transfers). Key elements of this change include:

- A continuing drain on governmental resources directly attributable to the extent by which fire service costs exceed related revenues.
- A decrease in state shared revenues of approximately \$24,222. This is a direct result of the State of Michigan's fiscal challenges within the continuing sluggish economy.
- The effect of principal payments on long-term liabilities reported as an expenditure in the fund financial statements, and as a reduction in liabilities in the government-wide financial statements.

Business-type activities. Business-type activities increased the Township's net assets by \$3,147,490 (before transfers).

- The key element of the increase was the gain on the sale of capital investments in SCCMUA of \$2,823,198.
- Hookup fees for new sewer users contributed \$133,813 over the anticipated amount.

Financial Analysis of the Government's Funds

As noted earlier, the Township uses fund accounting to ensure and demonstrate compliance with finance-related legal requirements.

Governmental funds. The focus of the Township's *governmental funds* is to provide information on near-term inflows, outflows, and balances of *spendable* resources. Such information is useful in assessing the Township's financing requirements. In particular, *unreserved fund balance* may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Township's governmental funds reported combined ending fund balances of \$1,682,343, a decrease of \$83,331 in comparison with the prior year. Approximately 99 percent of this total amount (\$1,663,895) constitutes *unreserved fund balance*, which is available for spending at the government's discretion. The remainder of fund balance is *reserved* to indicate that it is not available for new spending because it has already been committed.

The general fund is the chief operating fund of the Township. At the end of the current fiscal year, unreserved fund balance of the general fund was \$1,379,609, while total fund balance was \$1,398,127. As a measure of the general fund's liquidity, it may be useful to compare unreserved fund balance to total fund expenditures. Unreserved fund balance represents 46 percent of total general fund expenditures.

The fund balance of the Township's general fund decreased by \$93,756 during the current fiscal year. This is primarily attributable to an increase over the last several years of expenditures related to public safety and the use of general fund to pay the installment loan payments

Proprietary funds. The Township's proprietary funds provide the same type of information found in the government-wide financial statements, but in more detail.

Unrestricted net assets of the sewage disposal and water extension funds at the end of the year amounted to \$6,821,335 and \$1,786,302, respectively. The sewer fund had an increase in net assets for the year of \$2,247,208 whereas the water fund had an decrease of \$27,360. Other factors concerning the finances of these two funds have already been addressed in the discussion of the Township's business-type activities.

General Fund Budgetary Highlights

There were no major differences between the final amended budgets and actual results for expenditures, except for general variances such as: Attorney of \$35,932; General Services Administration of \$39,299; Buildings and Grounds of \$30,357; Public Safety of \$31,211; Highways, Streets and Bridges of \$74,973.

During the year, the actual decrease in fund balance was \$183,899 less than the amended general fund budgetary estimates.

Capital Asset and Debt Administration

Capital assets. The Township's investment in capital assets for its governmental and business type activities as of December 31, 2004, amounted to \$4,930,212 (net of accumulated depreciation). This investment in capital assets includes land, buildings and system, improvements, machinery and equipment, and vehicles. The total increase in the Township's investment in capital assets for the current fiscal year was 1.8 percent (an 8.5 percent decrease for governmental activities and a 2.1 percent increase for business-type activities).

Major capital asset events during the current fiscal year included the sale of a sewer investment and the payoff of the authority installment loan.

Charter Township of Watertown's Capital Assets (net of depreciation)

	Governmental	Business-type	
	activities	activities	Total
Land	\$ 41,570	\$ -	\$ 41,570
Construction in progress	-	53,622	53,622
Systems	-	4,733,453	4,733,453
Buildings and improvements	73,898	-	73,898
Equipment	27,669	-	27,669
Total	\$ 143,137	\$ 4,787,075	\$ 4,930,212

Additional information on the Township's capital assets can be found in Note III.C on pages 33-34 of this report.

Long-term debt. At the end of the current fiscal year, the Township had total bonded debt outstanding of \$3,271,005. This is comprised of bonds secured solely by specified revenue sources (i.e., revenue bonds).

Township of Watertown's Outstanding Debt
General Obligation and Revenue Bonds

	<u>Governmental</u> <u>activities</u>	<u>Business-type</u> <u>activities</u>	<u>Total</u>
Revenue bonds	\$ 94,005	\$ 3,177,000	\$ 3,271,005

The Township's bonded debt decreased by \$246,335 (7.0 percent) during the current fiscal year, with no new debt issuances.

Additional information on the Township's long-term debt can be found in Note III.F. on pages 35-37 of this report.

Economic Factors and Next Year's Budgets and Rates

The following factors were considered in preparing the Township's budget for the 2004-05 fiscal year:

Several considerations were made to reduce the budget costs in lieu of recent State revenue sharing cuts and rising insurance costs. The cost of wages and benefits was reduced by the elimination of 1 full time staff person and the partial reduction of an administrative position. Concessions were achieved with the fire authority delaying the hiring of additional staff. Overall, each department was committed to achieving a 7.7% budget reduction for all remaining expenditure line items for the 2004-05 fiscal year.

During the current fiscal year, unreserved fund balance in the general fund decreased by \$105,691 to \$1,379,679. The Township has appropriated \$122,210 of general fund unreserved fund balance for spending in the 2004-05 fiscal year budget.

Requests for Information

This financial report is designed to provide a general overview of the Township's finances for all those with an interest in the government's finances. Questions concerning any of the information provided in this report or requests for additional financial information should be addressed to the Township Supervisor, 12803 S. Wacousta Road, Grand Ledge, Michigan 48837.

BASIC FINANCIAL STATEMENTS

GOVERNMENT-WIDE FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Net Assets

December 31, 2004

	Primary Government		
	Governmental	Business-type	
	Activities	Activities	Total
Assets			
Cash and cash equivalents	\$ 636,972	\$ 940,376	\$ 1,577,348
Investments	1,385,076	3,218,556	4,603,632
Receivables, net	686,234	2,236,117	2,922,351
Internal balances	20,988	(20,988)	-
Prepaid items and other assets	18,448	42,289	60,737
Restricted cash and cash equivalents	-	81,337	81,337
Investment in joint venture	-	637,601	637,601
Capital assets not being depreciated	41,570	53,622	95,192
Capital assets being depreciated, net	101,567	4,733,453	4,835,020
 Total assets	 2,890,855	 11,922,363	 14,813,218
Liabilities			
Accounts payable and accrued expenses	29,351	154,201	183,552
Unearned revenue	995,840	-	995,840
Long-term liabilities:			
Due within one year	31,335	290,000	321,335
Due in more than one year	76,448	2,870,505	2,946,953
 Total liabilities	 1,132,974	 3,314,706	 4,447,680
Net assets			
Invested in capital assets, net of related debt	143,137	1,626,570	1,769,707
Restricted for:			
Debt service	3,552	-	3,552
Capital projects	92,715	-	92,715
Other purposes	187,270	-	187,270
Unrestricted	1,331,207	6,981,087	8,312,294
 Total net assets	 \$ 1,757,881	 \$ 8,607,657	 \$ 10,365,538

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Statement of Activities

For the Year Ended December 31, 2004

Functions/Programs	Expenses	Program Revenues			Net (Expense) Revenue
		Charges for Services	Operating Grants and Contributions	Capital Grants and Contributions	
Primary government					
Governmental activities:					
Legislative	\$ 35,741	\$ -	\$ -	\$ -	\$ (35,741)
General government	657,841	41,496	-	-	(616,345)
Public safety	665,546	42,982	-	-	(622,564)
Public works	273,077	-	-	27,524	(245,553)
Community and economic development	62,362	365,474	-	-	303,112
Recreation and cultural	85,305	19,280	1,802	-	(64,223)
Interest on long-term debt	23,903	210	-	-	(23,693)
Total governmental activities	1,803,775	469,442	1,802	27,524	(1,305,007)
Business-type activities:					
Sewage disposal	578,569	597,563	-	-	18,994
Water extension	233,124	211,946	-	-	(21,178)
Total business-type activities	811,693	809,509	-	-	(2,184)
Total primary government	\$ 2,615,468	\$ 1,278,951	\$ 1,802	\$ 27,524	\$ (1,307,191)

continued...

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Activities (Concluded)
For the Year Ended December 31, 2004

Functions/Programs	Primary Government		Total
	Governmental Activities	Business-type Activities	
Changes in net assets			
Net (expense) revenue	\$ (1,305,007)	\$ (2,184)	\$ (1,307,191)
General revenues:			
Property taxes	896,957	-	896,957
Grants and contributions not restricted to specific programs	410,216	-	410,216
Other unrestricted revenue	119,211	-	119,211
Unrestricted investment earnings	36,598	-	36,598
Gain on investment in joint venture	-	326,476	326,476
Special item:			
Gain on sale of investment in joint venture	-	2,823,198	2,823,198
Transfers - internal activities	927,642	(927,642)	-
Total general revenues, special item and transfers	2,390,624	2,222,032	4,612,656
Change in net assets	1,085,617	2,219,848	3,305,465
Net assets, beginning of year, as restated	672,264	6,387,809	7,060,073
Net assets, end of year	\$ 1,757,881	\$ 8,607,657	\$ 10,365,538

The accompanying notes are an integral part of these financial statements.

FUND FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Balance Sheet

Governmental Funds

December 31, 2004

	General	Nonmajor Funds	Totals
Assets			
Cash and cash equivalents	\$ 570,005	\$ 66,967	\$ 636,972
Investments	1,153,518	231,558	1,385,076
Taxes receivable	505,776	19,459	525,235
Special assessments receivable	38,479	-	38,479
Accounts receivable	16,552	2,650	19,202
Due from other governments	103,318	-	103,318
Due from other funds	20,988	-	20,988
Prepaid expenditures	18,448	-	18,448
<u>TOTAL ASSETS</u>	<u>\$ 2,427,084</u>	<u>\$ 320,634</u>	<u>\$ 2,747,718</u>
<u>LIABILITIES AND FUND BALANCES</u>			
Liabilities			
Accounts payable	\$ 8,562	\$ -	\$ 8,562
Accrued wages	15,815	-	15,815
Other liabilities	4,295	-	4,295
Deferred revenue	1,000,285	36,418	1,036,703
Total liabilities	1,028,957	36,418	1,065,375
Fund balances			
Reserved for prepaids	18,448	-	18,448
Unreserved:			
Designated for subsequent year expenditures	122,210	-	122,210
Undesignated	1,257,469	-	1,257,469
Undesignated, reported in nonmajor:			
Special revenue funds	-	187,270	187,270
Debt service funds	-	4,231	4,231
Capital projects funds	-	92,715	92,715
Total fund balances	1,398,127	284,216	1,682,343
<u>TOTAL LIABILITIES AND FUND BALANCES</u>	<u>\$ 2,427,084</u>	<u>\$ 320,634</u>	<u>\$ 2,747,718</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of Fund Balances on the Balance Sheet
for Governmental Funds to Net Assets
of Governmental Activities on the Statement of Net Assets
December 31, 2004

Fund balances - total governmental funds	\$ 1,682,343
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Amounts reported for *governmental activities* in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources, and therefore not reported in the funds.

Add: capital assets not being depreciated	41,570
Add: capital assets being depreciated	101,567

Because the focus of governmental funds is on short-term financing, some assets will not be available to pay for current-period expenditures. Those assets (such as certain receivables) are offset by deferred revenues in the governmental funds, and thus are not included in fund balance.

Add: deferred long-term receivables	40,863
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Certain liabilities, such as bonds payable, are not due and payable in the current period, and therefore are not reported in the funds.

Subtract: bonds payable	(94,005)
Subtract: compensated absences	(13,778)
Subtract: accrued interest on long-term liabilities	(679)
	(118,462)

Net assets of governmental activities	\$ 1,757,881
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The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balances
Governmental Funds
For the Year Ended December 31, 2004

	General	Nonmajor Funds	Totals
Revenue			
Taxes	\$ 863,298	\$ 33,659	\$ 896,957
Special assessments	34,404	-	34,404
Licenses and permits	486,118	-	486,118
State revenue sharing	295,886	-	295,886
Charges for services	66,075	9,140	75,215
Interest	36,598	6,346	42,944
Rentals	22,616	-	22,616
Contributions and donations	125,243	-	125,243
Other revenue	21,935	-	21,935
Total revenue	1,952,173	49,145	2,001,318
Expenditures			
Current:			
Legislative	35,741	-	35,741
General government	638,556	-	638,556
Public safety and health	669,070	-	669,070
Public works	273,077	-	273,077
Community and economic development	62,889	-	62,889
Recreation and cultural	79,689	-	79,689
Capital outlay	7,207	-	7,207
Debt service:			
Principal	1,187,421	31,335	1,218,756
Interest	19,921	7,385	27,306
Total expenditures	2,973,571	38,720	3,012,291
Revenue over (under) expenditures	(1,021,398)	10,425	(1,010,973)
Other financing sources			
Transfers in	927,642	-	927,642
Net change in fund balances	(93,756)	10,425	(83,331)
Fund balances, beginning of year, as restated	1,491,883	273,791	1,765,674
Fund balances, end of year	<u>\$ 1,398,127</u>	<u>\$ 284,216</u>	<u>\$ 1,682,343</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Reconciliation of the Statement of Revenue, Expenditures
and Changes in Fund Balances
of Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2004

Net change in fund balances - total governmental funds	\$ (83,331)
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Amounts reported for *governmental activities* in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense.

Subtract: depreciation expense	(13,338)
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Revenues in the statement of activities that do not provide current financial resources are not reported as revenues in the funds, but rather are deferred to following years.

Subtract: current year revenue received on long-term receivables	(39,568)
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Repayment of bond principal is an expenditure in the governmental funds, but the repayment reduces long term-liabilities.

Add: principal payments on long-term liabilities	1,218,756
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Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds.

Subtract: increase in the accrual for accrued interest on bonds	3,403
Add: decrease in the accrual of compensated absences	(305)

Change in net assets of governmental activities	<u>\$ 1,085,617</u>
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The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Revenue				
Taxes	\$ 859,415	\$ 859,415	\$ 863,298	\$ 3,883
Special assessments	-	-	34,404	34,404
Licenses and permits:				
Landfill	56,896	56,896	56,957	61
Planning, zoning & building	205,900	376,900	365,474	(11,426)
Franchise fees	42,580	42,580	63,687	21,107
State revenue sharing	324,000	324,000	295,886	(28,114)
Charges for services:				
Fire runs	15,500	15,500	42,982	27,482
Cemetery	8,820	8,820	10,412	1,592
Parks and recreation	7,000	7,000	3,753	(3,247)
Other	500	500	8,928	8,428
Interest	21,053	21,053	36,598	15,545
Rentals:				
Parks	5,000	5,000	6,416	1,416
Other	14,800	14,800	16,200	1,400
Contributions and donations:				
G.L.I.T.	115,000	115,000	114,330	(670)
Parks	12,100	12,100	10,913	(1,187)
Other revenue	50	50	21,935	21,885
Total revenue	1,688,614	1,859,614	1,952,173	92,559
Expenditures				
Legislative				
Township board	56,627	56,627	35,741	(20,886)
General government				
Supervisor	16,170	16,170	15,829	(341)
Elections	5,786	6,586	6,547	(39)
Assessor	48,795	48,795	46,896	(1,899)
Attorney	50,000	50,000	14,068	(35,932)
Clerk	50,895	50,895	50,324	(571)
Board of review	778	778	581	(197)
Treasurer	51,557	51,557	50,671	(886)
General services administration	377,677	377,677	338,378	(39,299)
Buildings and grounds	117,499	117,499	87,142	(30,357)
Other property	3,850	3,850	1,333	(2,517)
Cemetery	4,606	5,356	2,776	(2,580)
Insurance	23,300	24,120	22,731	(1,389)
Refunds and rebates	5,150	5,150	1,280	(3,870)
Total general government	756,063	758,433	638,556	(119,877)

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenditures and Changes in Fund Balance
Budget and Actual
General Fund
For the Year Ended December 31, 2004

	Original Budget	Final Budget	Actual	Actual over (under) Final Budget
Expenditures (continued)				
Public safety and health				
Public safety and health	\$ 372,026	\$ 372,026	\$ 350,903	\$ (21,123)
Building inspection	156,455	328,255	318,167	(10,088)
Total public safety and health	528,481	700,281	669,070	(31,211)
Public works				
Drains at large	5,000	36,000	35,995	(5)
Highways, streets, and bridges	297,500	297,500	222,527	(74,973)
Street lighting	2,500	2,500	14,555	12,055
Total public works	305,000	336,000	273,077	(62,923)
Community and economic development				
Planning and zoning	78,453	78,453	62,889	(15,564)
Recreation and cultural				
Parks and recreation	67,181	81,231	79,689	(1,542)
Capital outlay	14,800	14,800	7,207	(7,593)
Debt service				
Principal	103,524	1,207,343	1,187,421	(19,922)
Interest	-	-	19,921	19,921
Total debt service	103,524	1,207,343	1,207,342	(1)
Total expenditures	1,910,129	3,233,168	2,973,571	(259,597)
Revenue over (under) expenditures	(221,515)	(1,373,554)	(1,021,398)	352,156
Other financing sources				
Transfers in	23,910	1,095,899	927,642	(168,257)
Net change in fund balances	(197,605)	(277,655)	(93,756)	183,899
Fund balance, beginning of year, as restated	1,491,883	1,491,883	1,491,883	-
Fund balance, end of year	<u>\$ 1,294,278</u>	<u>\$ 1,214,228</u>	<u>\$ 1,398,127</u>	<u>\$ 183,899</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN**Statement of Net Assets****Proprietary Funds****December 31, 2004**

	Sewage Disposal	Water Extension	Totals
Assets			
Current assets:			
Cash and cash equivalents	\$ 762,074	\$ 178,302	\$ 940,376
Investments	2,913,715	304,841	3,218,556
Accounts receivable	14,234	-	14,234
Interest receivable	73,443	56,356	129,799
Current portion of special assessments receivable	13,688	9,364	23,052
Deferred charges	22,472	19,817	42,289
Noncurrent assets:			
Restricted cash	2,098	79,239	81,337
Special assessments receivable, net of current portion	1,120,679	948,353	2,069,032
Investment in joint venture	637,601	-	637,601
Capital assets not being depreciated	53,622	-	53,622
Capital assets being depreciated	3,067,014	1,666,439	4,733,453
Total assets	8,680,640	3,262,711	11,943,351
Liabilities			
Current liabilities:			
Accounts payable	107,394	-	107,394
Accrued interest payable	27,286	19,521	46,807
Due to other funds	20,988	-	20,988
Current portion of long-term debt	130,000	160,000	290,000
Long-term liabilities:			
Due in more than one year	1,573,617	1,296,888	2,870,505
Total liabilities	1,859,285	1,476,409	3,335,694
Net assets			
Invested in capital assets, net related debt	1,417,019	209,551	1,626,570
Unrestricted	5,404,336	1,576,751	6,981,087
Total net assets	\$ 6,821,355	\$ 1,786,302	\$ 8,607,657

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Revenue, Expenses
and Changes in Fund Net Assets
Proprietary Funds
For the Year Ended December 31, 2004

	Sewage Disposal	Water Extension	Totals
Operating revenue			
User fee charges	\$ 243,285	\$ 24,043	\$ 267,328
Hook-up fees and permits	240,862	123,640	364,502
Total operating revenue	484,147	147,683	631,830
Operating expense			
General administration	153,721	137,193	290,914
Sewage plant administration	233,181	-	233,181
Depreciation	105,181	29,481	134,662
Total operating expense	492,083	166,674	658,757
Operating income (loss)	(7,936)	(18,991)	(26,927)
Non-operating revenue (expenses)			
Interest revenue	113,416	64,263	177,679
Interest expense	(86,486)	(66,450)	(152,936)
Gain on sale of investment in SCCMUA	2,823,198	-	2,823,198
Gain on investment in SCCMUA	326,476	-	326,476
Total non-operating revenue (expenses)	3,176,604	(2,187)	3,174,417
Income (loss) before transfers	3,168,668	(21,178)	3,147,490
Transfers			
Transfers (out)	(921,460)	(6,182)	(927,642)
Change in net assets	2,247,208	(27,360)	2,219,848
Net assets, beginning of year, as restated	4,574,147	1,813,662	6,387,809
Net assets, end of year	<u>\$ 6,821,355</u>	<u>\$ 1,786,302</u>	<u>\$ 8,607,657</u>

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds
For the Year Ended December 31, 2004

	Sewage Disposal	Water Extension	Totals
Cash flows from operating activities			
Cash received from customers	\$ 483,427	\$ 147,683	\$ 631,110
Cash payments to suppliers for goods and services	(348,843)	(137,193)	(486,036)
Net cash provided by (used in) operating activities	134,584	10,490	145,074
Cash flows from non-capital financing activities			
Transfers (out)	(921,460)	(6,182)	(927,642)
Net cash provided (used) by non-capital financing activities	(921,460)	(6,182)	(927,642)
Cash flows from capital and related financing activities			
Purchase of capital assets	(262,738)	-	(262,738)
Payments received on special assessments	393,753	331,290	725,043
Bond issuance costs paid	(12,962)	-	(12,962)
Interest payments	(88,671)	(75,542)	(164,213)
Principal payments	(155,000)	(60,000)	(215,000)
Net cash provided (used) by capital and related financing activities	(125,618)	195,748	70,130
Cash flows from investing activities			
Purchases of investments	(2,418,715)	(177,841)	(2,596,556)
Interest received	118,834	60,010	178,844
Proceeds from sale of investment in SCCMUA	2,900,010	-	2,900,010
Net cash provided by investing activities	600,129	(117,831)	482,298
Net increase (decrease) in cash and cash equivalents	(312,365)	82,225	(230,140)
Cash and cash equivalents, beginning of year	1,076,537	175,316	1,251,853
Cash and cash equivalents, end of year	\$ 764,172	\$ 257,541	\$ 1,021,713

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Cash Flows
Proprietary Funds (Concluded)
For the Year Ended December 31, 2004

	Sewage Disposal	Water Extension	Totals
Reconciliation to the Statement of Net Assets			
Cash and cash equivalents	\$ 762,074	\$ 178,302	\$ 940,376
Restricted cash	2,098	79,239	81,337
	<u>\$ 764,172</u>	<u>\$ 257,541</u>	<u>\$ 1,021,713</u>
Cash flows from operating activities			
Operating income (loss)	\$ (7,936)	\$ (18,991)	\$ (26,927)
Adjustments to reconcile operating income (loss) to net cash provided by operating activities:			
Depreciation	105,181	29,481	134,662
(Increase) decrease in:			
Accounts receivable	(720)	-	(720)
Increase (decrease) in:			
Accounts payable	17,071	-	17,071
Due to other funds	20,988	-	20,988
Net cash provided (used) by operating activities	<u>\$ 134,584</u>	<u>\$ 10,490</u>	<u>\$ 145,074</u>
Non-cash transactions			
Gain on investment in SCCMUA	\$ 326,476	\$ -	\$ 326,476

The accompanying notes are an integral part of these financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Statement of Fiduciary Net Assets
December 31, 2004

	<u>Agency Fund</u>
Assets	
Cash and cash equivalents	\$ 1,635,731
Investments	<u>587</u>
Total assets	<u><u>\$ 1,636,318</u></u>
 Liabilities	
Current tax distributions and deposits payable	<u><u>\$ 1,636,318</u></u>

The accompanying notes are an integral part of these financial statements.

NOTES to the FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Reporting entity

Watertown Charter Township, Michigan is a municipal corporation governed by an elected supervisor and a seven-member board. The Township has adopted the position of the Governmental Accounting Standards Board (GASB) Statement #14 regarding the definition of reporting entity and has determined that no entities should be consolidated into the financial statements as component units. The criteria for including a component unit include significant operational or financial relationships with the government.

B. Government-wide and fund financial statements

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government. For the most part, the effect of interfund activity has been removed from these statements. *Governmental activities*, which normally are supported by taxes and intergovernmental revenues, are reported separately from *business-type activities*, which rely to a significant extent on fees and charges for support.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. *Direct expenses* are those that are clearly identifiable with a specific function or segment. *Program revenues* include: 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as *general revenues*.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

C. Measurement focus, basis of accounting, and financial statement presentation

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*, as are the proprietary fund and fiduciary fund financial statements, except for agency funds, which do not have a measurement focus. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenues in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period.

For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Property taxes, franchise taxes, intergovernmental revenue, licenses, and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. Only the portion of special assessments receivable due within the current fiscal period is considered to be susceptible to accrual as revenue of the current period. All other revenue items are considered to be measurable and available only when the government receives cash.

The government reports the following major governmental funds:

The *general fund* is the government's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund.

The government reports the following major proprietary funds:

The *sewage disposal fund* accounts for the activities of the government's sewage disposal system.

The *water extension fund* accounts for the activities of the government's water distribution system.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Additionally, the government reports the following fund types:

Special revenue funds. These funds account for revenue sources that are legally restricted to expenditures for specific purposes not including major capital projects.

Debt service funds. These funds account for the resources accumulated and payments made for principal and interest on long-term general obligation debt of governmental funds.

Capital projects funds. These funds account for revenue sources that are legally restricted to expenditures for major capital projects.

Agency funds. These funds account for assets held for other governments in an agency capacity.

Private-sector standards of accounting and financial reporting issued prior to December 1, 1989, generally are followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with or contradict guidance of the Governmental Accounting Standards Board. Governments also have the *option* of following subsequent private-sector guidance for their business-type activities and enterprise funds, subject to this same limitation. The government has elected not to follow subsequent private-sector guidance.

As a general rule the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are payments-in-lieu of taxes and other charges between the government's water and sewer function and various other functions of the government. Elimination of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Amounts reported as *program revenues* include: 1) charges to customers or applicants for goods, services, or privileges provided, 2) operating grants and contributions, and 3) capital grants and contributions, including special assessments. Internally dedicated resources are reported as *general revenues* rather than as program revenues. Likewise, general revenues include all taxes.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Proprietary funds distinguish *operating* revenues and expenses from *nonoperating* items. Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. The principal operating revenues of the sewage disposal and water enterprise funds are charges to customers for sales and services. The enterprise fund also recognizes as operating revenues the portion of tap fees intended to recover the cost of connecting new customers to the system. Operating expenses for enterprise funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as nonoperating revenues and expenses.

When both restricted and unrestricted resources are available for use, it is the government's policy to use restricted resources first, then unrestricted resources as they are needed.

D. Assets, liabilities and net assets/equity

1. Deposits and investments

The government's cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with original maturities of three months or less from the date of acquisition.

State statutes authorize the government to deposit in the accounts of federally insured banks, credit unions, and savings and loan associations, and to invest in obligations of the U.S. Treasury, certain commercial paper, repurchase agreements, bankers acceptances, and mutual funds composed of otherwise legal investments.

Investments, if any, are reported at fair value.

2. Receivables and payables

Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year are referred to as either "due to/from other funds" (i.e., the current portion of interfund loans) or "advances to/from other funds" (i.e., the non-current portion of interfund loans). All other outstanding balances between funds are reported as "due to/from other funds." Any residual balances outstanding between the governmental activities and business-type activities are reported in the government-wide financial statements as "internal balances."

3. Prepaid items

Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid items in both government-wide and fund financial statements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

4. *Capital assets*

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities columns in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of more than \$5,000 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets lives are not capitalized.

Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest incurred during the construction phase of capital assets of business-type activities, if any, is included as part of the capitalized value of the assets constructed. No such interest expense was incurred during the current fiscal year.

Capital assets of the primary government are depreciated using the straight-line method over the following estimated useful lives:

<u>Assets</u>	<u>Years</u>
Buildings	15-40
System infrastructure	40
Vehicles	5
Equipment	5-10

5. *Compensated absences*

It is the government's policy to permit eligible employees to accumulate earned but unused vacation and sick pay benefits. Union employees are allowed to accumulate an unlimited amount of sick leave and non-union employees are allowed to accumulate 480 hours of sick leave, which is paid only upon illness while in the employ of the Township or at a rate of 50% upon retirement. Union employees are allowed to accumulate five days of vacation time and non-union employees are allowed to accumulate ten days of vacation time. Employees are only paid for unused vacation at the time of termination. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations or retirements.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

6. *Long-term obligations*

In the government-wide financial statements, and proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt.

In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures.

7. *Fund equity*

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance, if any, represent tentative management plans that are subject to change.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. *Budgetary information*

Annual budgets are adopted on a basis consistent with generally accepted accounting principles for the general and special revenue funds. All annual appropriations lapse at fiscal year end.

The budget for the General Fund and the Special Revenue Fund is adopted at the department level.

The government does not utilize encumbrance accounting.

B. *Excess of expenditures over appropriations*

P.A. 621 of 1978, as amended, provides that a local unit shall not incur expenditures in excess of the amounts appropriated. During the year ended December 31, 2004, the government incurred in the general fund street lighting expenditures of \$14,555 that were in excess of the amounts appropriated at the legal level of budgetary control in the amount of \$2,500.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

III. DETAILED NOTES ON ALL FUNDS

A. Deposits and investments

At year-end, the carrying amounts of deposits for the Township was \$5,233,986. The bank balance was \$5,576,950. Of the bank balance, \$2,600,000 was covered by federal depository insurance. The remaining balance of \$2,976,950 was uninsured and uncollateralized.

The Township believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the government evaluates each financial institution with which it deposits government funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

Investments, if any, are categorized into these three categories of credit risk:

- (1) Insured or registered, or securities held by the government or its agent in the government's name.
- (2) Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the government's name.
- (3) Uninsured and unregistered, with securities held by the counterparty, or by its trust department or agent but not in the government's name.

At year-end, the Township's investments consisted of the following:

	Categories			Fair Value
	1	2	3	
Investments:				
Commercial paper	\$ -	\$ 597,000	\$ -	\$ 597,000
U.S. government securities	-	400,000	-	400,000
Municipal bonds	-	100,000	-	100,000
	<u>\$ -</u>	<u>\$1,097,000</u>	<u>\$ -</u>	1,097,000
Unclassified as to risk:				
Government money market funds				<u>1,567,249</u>
Total investments				<u>\$2,664,249</u>

A reconciliation of cash and investments as shown on the Statement of Net Assets and Statement of Fiduciary Net Assets to deposits and investments as classified for note disclosure purposes is as follows:

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Statement of Net Assets

Cash and cash equivalents	\$ 1,577,348
Investments	4,603,632
Restricted cash and cash equivalents	81,337

Statement of Fiduciary Net Assets

Cash and cash equivalents	1,635,731
Investments	<u>587</u>

\$ 7,898,635

Bank deposits (checking and savings accounts)	\$ 5,233,986
Investments	2,664,249
Cash on hand	<u>400</u>

\$ 7,898,635

B. Receivables

Receivables as of year end are as follows:

	General	Nonmajor	Sewage	Water		Amounts Not
	Fund	Governmental	Disposal	Extension		Expected to
		Funds	Enterprise	Enterprise	Total	be Collected
			Fund	Fund		Within
						One Year
Taxes receivable	\$ 505,776	\$ 19,459	\$ -	\$ -	\$ 525,235	\$ -
Special assessments receivable	38,479	-	1,134,367	957,717	2,130,563	2,069,032
Accounts receivable	16,552	2,650	14,234	-	33,436	3,011
Interest receivable	-	-	73,443	56,356	129,799	-
Due from other governments	103,318	-	-	-	103,318	-
	\$ 664,125	\$ 22,109	\$ 1,222,044	\$ 1,014,073	\$ 2,922,351	\$ 2,072,043

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

C. Capital assets

Capital assets activity for the year ended December 31, 2004 was as follows:

	January 1, 2004	Additions	Deletions	December 31, 2004
<i>Governmental Activities</i>				
Capital assets not being depreciated:				
Land	\$ 41,570	\$ -	\$ -	\$ 41,570
Capital assets being depreciated:				
Buildings and improvements	150,330	-	-	150,330
Equipment	71,609	-	-	71,609
Vehicles	20,065	-	-	20,065
Total capital assets being depreciated	242,004	-	-	242,004
Less accumulated depreciation for:				
Buildings and improvements	(70,472)	(5,960)	-	(76,432)
Equipment	(36,562)	(7,378)	-	(43,940)
Vehicles	(20,065)	-	-	(20,065)
Total accumulated depreciation	(127,099)	(13,338)	-	(140,437)
Total capital assets being depreciated, net	114,905	(13,338)	-	101,567
Governmental activities capital assets, net	\$ 156,475	\$ (13,338)	\$ -	\$ 143,137
<i>Business-type Activities</i>				
Capital assets not being depreciated:				
Construction in progress	\$ 1,484,493	\$ 237,123	\$ 1,667,994	\$ 53,622
Capital assets being depreciated:				
Sewage disposal system	3,928,783	552,980	-	4,481,763
Water extension	623,594	1,111,301	-	1,734,895
Total capital assets being depreciated	4,552,377	1,664,281	-	6,216,658
Less accumulated depreciation for:				
Sewage disposal system	(1,309,568)	(105,181)	-	(1,414,749)
Water extension	(38,975)	(29,481)	-	(68,456)
Total accumulated depreciation	(1,348,543)	(134,662)	-	(1,483,205)
Total capital assets being depreciated, net	3,203,834	1,529,619	-	4,733,453
Business-type activities capital assets, net	\$ 4,688,327	\$ 1,766,742	\$ 1,667,994	\$ 4,787,075

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Depreciation expense was charged to functions/programs of the Township as follows:

Governmental activities:

General government	\$ 6,154
Recreation and cultural	7,184

Total depreciation expense - governmental activities	<u>\$ 13,338</u>
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Business-type activities:

Sewage disposal	\$ 105,181
Water extension	29,481

Total depreciation expense - governmental activities	<u>\$ 134,662</u>
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D. Payables

Payables as of year end are as follows:

	General Fund	Government- Wide Statements	Sewage Disposal Enterprise Fund	Water Extension Enterprise Fund	Total
Accounts payable	\$ 8,562	\$ -	\$ 107,394	\$ -	\$ 115,956
Accrued wages	15,815	-	-	-	15,815
Accrued interest payable	-	679	27,286	19,521	47,486
Other liabilities	4,295	-	-	-	4,295
	<u>\$ 28,672</u>	<u>\$ 679</u>	<u>\$ 134,680</u>	<u>\$ 19,521</u>	<u>\$ 183,552</u>

E. Interfund receivables, payables and transfers

At December 31, 2004, the General Fund reported an interfund receivable of \$20,988 and the Sewage Disposal Enterprise Fund reported an interfund payable of \$20,988 in the fund financial statements.

For the year ended June 30, 2004, interfund transfers consisted of \$921,460 and \$6,182 from the Sewage Disposal Enterprise Fund and the Water Extension Enterprise Fund, respectively, to the General Fund.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Transfers are used to: (1) move revenues from the fund that is required to collect them to the fund that is required or allowed to expend them; (2) move receipts restricted to or allowed for debt service from the funds collecting the receipts to the debt service fund as debt service payments become due; and (3) use unrestricted revenues collected to finance various programs accounted for in other funds in accordance with budgetary authorizations.

For the year ended December 31, 2004, the Sewage Disposal and Water Extension Enterprise Funds transferred funds to reimburse the General Fund for administrative costs and to reimburse the General Fund for prior year operating subsidies.

F. Long-term debt

General obligation bonds. The government issues general obligation bonds to provide funds for the acquisition and construction of major capital facilities. General obligation bonds have been issued for both governmental and business-type activities. The original amount of general obligation bonds issued in prior years for the governmental and business-type activities debt listed below was \$3,265,121. No general obligation bonds were issued during the current year.

General obligation bonds are direct obligations and pledge the full faith and credit of the government. These bonds are issued as 10 to 20-year serial bonds with varying amounts of principal maturing each year. General obligation bonds currently outstanding are as follows:

Governmental Activities:

Bonds Payable:

\$470,025 wastewater treatment plant bonds due in annual installments of \$6,267 to \$31,335 through May 1, 2007, interest at 5.8% to 7%	<u>\$ 94,005</u>
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Business-type Activities:

Bonds Payable:

\$343,000 sanitary sewer improvement project special assessment bonds due in annual installments of \$8,000 to \$26,000 through May 1, 2010, interest at 6.8%	\$ 152,000
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\$995,000 sewage disposal system bonds due in annual installments of \$56,580 to \$104,730 through March 1, 2020, interest at 5.1% to 7.5%	945,000
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\$100,000 general obligation limited tax bonds due in annual installments of \$20,000 through August 1, 2009, interest at 2.3% to 2.9%	100,000
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WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

\$510,000 special assessment bonds due in annual installments of \$35,000 to \$45,000 through August 1, 2018, interest at 2.3% to 4.1%	\$ 510,000
\$275,000 special assessment bonds due in annual installments of \$11,900 to \$47,175 through May 1, 2010, interest at 4.6% to 5%	180,000
\$275,000 special assessment bonds due in annual installments of \$7,995 to \$47,883 through May 1, 2009, interest at 4.7% to 5.2%	150,000
\$990,000 special assessment bonds due in annual installments of \$70,000 to \$75,000 through August 1, 2018, interest at 2.6% to 4.6%	990,000
\$150,000 general obligation limited tax bonds due in annual installments of \$30,000 through August 1, 2009, interest at 2.3% to 2.9%	<u>150,000</u>
	<u>\$ 3,177,000</u>

Annual debt service requirements to maturity for bonds are as follows:

Year Ended December 31	Governmental Activities		Business-type Activities	
	Principal	Interest	Principal	Interest
2005	\$ 31,335	\$ 5,092	\$ 290,000	\$ 134,691
2006	31,335	3,055	295,000	123,036
2007	31,335	1,018	300,000	111,596
2008	-	-	300,000	99,884
2009	-	-	301,000	87,682
2010-2014	-	-	881,000	302,193
2015-2019	-	-	750,000	110,518
2020	-	-	60,000	1,754
	<u>\$ 94,005</u>	<u>\$ 9,165</u>	<u>\$ 3,177,000</u>	<u>\$ 971,354</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Changes in Long-Term Debt. Long-term liability activity for the year ended December 31, 2004, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due Within One Year</u>
<u>Primary Government</u>					
Governmental activities					
Bonds	\$ 125,340	\$ -	\$ 31,335	\$ 94,005	\$ 31,335
Installment loan	1,187,421	-	1,187,421	-	-
Compensated absences	13,473	1,304	999	13,778	-
	\$ 1,326,234	\$ 1,304	\$ 1,219,755	\$ 107,783	\$ 31,335
Business-type activities					
Bonds	\$ 3,392,000	\$ -	\$ 215,000	\$ 3,177,000	\$ 290,000
Deduct unamortized bond discounts	(17,875)	-	(1,380)	(16,495)	-
	\$ 3,374,125	\$ -	\$ 213,620	\$ 3,160,505	\$ 290,000

For the governmental activities, compensated absences are liquidated by the general fund.

IV. OTHER INFORMATION

A. Joint ventures

Southern Clinton County Municipal Utilities Authority

The Southern Clinton County Municipal Utilities Authority was created by contractual agreement between the Township, DeWitt Charter Township, Bath Charter Township, and the City of DeWitt to operate, maintain, administer and manage the sewage disposal system for the benefit of the contracting municipalities. Currently, the Township's ownership percentage in the joint venture is 16.202%. During the year ended December 31, 2004, the Township sold 4% of its ownership share to Bath Charter Township resulting in a gain on sale of investment in SCCMUA of \$2,823,198. As of December 31, 2004, the Township's share of the Authority's net assets was \$637,601. Separate financial statements for the Southern Clinton County Municipal Utilities Authority are available at the office of the Authority at 3671 W. Herbison Road, DeWitt, MI 48820.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Looking Glass Regional Fire Authority

The Township created a joint fire department with Eagle Township to be known as the Looking Glass Regional Fire Authority. The Authority will provide fire protection services to the entire geographical area comprising Eagle Township and the Charter Township of Watertown, and may contract with other municipalities to provide fire protection services. Currently, the Authority is funded primarily through contributions from Watertown Charter Township (65%) and Eagle Township (35%). During the year ended December 31, 2004, the Township contributed \$229,902 to the Authority. Separate financial statements for the Looking Glass Regional Fire Authority are available at the office of the Authority at 7720 W. Grand River Avenue, Grand Ledge, MI 48837.

B. Risk management

The Township is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. During the year ended December 31, 2004, the government carried commercial insurance to cover all risks of losses. The Township has had no settled claims from these risks that exceeded its commercial coverage in any of the past three fiscal years.

C. Property taxes

The government's property taxes are levied on the assessed taxable value of property in the Township each December 1, which is the lien date, and are due in full by March 1 of the succeeding year, at which time uncollected taxes become delinquent. The December 1 levy is recorded as a receivable and deferred revenue at year end because it is intended to fund expenditures of the following fiscal year.

Assessed values as established annually by the government, and subject to acceptance by the County, are equalized by the State at an estimated 50% of current market value. Real and personal property in the Township for the 2003 levy were assessed and equalized at \$159,519,201 (not including properties subject to Industrial Facilities Tax exemption), representing roughly 50% of estimated current market value. The government's general operating tax rate for the 2003 levy was 4.6916 mills, with an additional 0.2000 mills for debt retirement.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

D. Pension plan

The Watertown Charter Township Group Pension Plan is a defined contribution pension plan established by the Township to provide retirement benefits to all participating full-time employees of the Township. Plan provisions and contribution requirements are established and may be amended by the Township Board. The Township is required to contribute 10% of employee gross earnings. Employee contributions are optional. Employee contributions vest immediately, whereas employer contributions vest at a rate of 20% per year.

For the year ended December 31, 2004, the Township's contribution to the Plan was \$31,710. Employee contributions were \$11,174.

E. Commitments

The Township is obligated for a recycling contract with future contracted payments through December 31, 2006 in the amount of \$228,660 as of December 31, 2004, which are expected to be paid by the General Fund. The Township is also obligated for sewer construction contracts in the amount of \$824,037 at December 31, 2004, which are expected to be paid by the Sewage Disposal Enterprise Fund.

F. State Construction Code Act Compliance

Public Act 245 of 1999 amended the State Construction Act to require Michigan municipal governments to establish fees that bear a reasonable relationship to the cost of operating their building departments, effective January 1, 2000. The Township has elected to record this activity in the General Fund.

For the year ended December 31, 2004, the Township's revenue and expenditures related to its building department were as follows:

Revenue – Building fee revenue	\$ 350,047
Expenditures	<u>344,272</u>
Current year gain	<u>\$ 5,775</u>
Losses absorbed in 2000-2003	<u>\$ 8,418</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

G. Restatements

The beginning net assets of the Water and Sewer Enterprise Fund and the Local Development Finance Authority (component unit) were reduced by \$29,418 and \$57,703, respectively, to properly recognize accrued interest payable not recorded in the prior year.

As of and for the year ended June 30, 2004, the Township implemented the following Governmental Accounting Standards Board pronouncements:

Statements

- No. 34 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments*
- No. 37 – *Basic Financial Statements – and Management’s Discussion and Analysis – for State and Local Governments: Omnibus*
- No. 38 – *Certain Financial Statement Note Disclosures*

Interpretation

- No. 6 – *Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements*

The above pronouncements are all related to the new financial reporting requirements for all state and local governments. These pronouncements are scheduled for a phased implementation (based on the size of the government) through fiscal years ending in 2005. The Township was required to implement the new requirements no later than the current fiscal year ending December 31, 2004.

The more significant of the changes required by the new standards include:

- Management’s discussion and analysis;
- Basic financial statements that include:
 - Government-wide financial statements, prepared using the economic resources measurement focus and the accrual basis of accounting;
 - Fund financial statements, consisting of a series of statements that focus on a government’s major governmental funds and enterprise funds;
 - Schedules to reconcile the fund financial statements to the government-wide financial statements;
 - Notes to the basic financial statements.

As a result of implementing these pronouncements for the year ended December 31, 2004, the following restatements were made to beginning fund balance and net asset accounts.

WATERTOWN CHARTER TOWNSHIP, MICHIGAN

Notes to the Financial Statements

Fund financial statements.

Governmental funds. The beginning fund balance of the General Fund was increased by \$60,302 for the proper recognition of state revenue sharing payments due from the State of Michigan in the amount of \$51,585 and for the proper recognition of tax administration fee revenues previously held in Agency funds in the amount of \$8,717.

Proprietary funds. Amounts previously reported as contributed capital in the proprietary funds were reclassified as net assets. In addition, the beginning net assets of the Sewage Disposal Enterprise Fund were restated as follows:

Beginning net assets, as previously reported	\$ 4,172,885
Increased to properly recognize accounts receivable for sewer billings	13,325
Increased to properly recognize investment in SCCMUA	<u>387,937</u>
Beginning net assets, as restated	<u>\$ 4,574,147</u>

Government-wide financial statements. Beginning net assets for governmental activities were determined as follows:

Fund balances of governmental funds as of 12/31/03, as restated	\$ 1,765,674
Add: governmental capital assets, including land and buildings as of 12/31/03	283,574
Deduct: accumulated depreciation as of 12/31/03 on above governmental capital assets	(127,099)
Add: "unavailable" deferred revenue as of 12/31/03	80,431
Deduct: long-term debt as of 12/31/03	(1,312,761)
Deduct: accrued compensated absences as of 6/30/03	(13,473)
Deduct: accrued interest payable on general obligation bonds as of 12/31/03	<u>(4,082)</u>
Governmental net assets, restated, as of 1/1/2004	<u>\$ 672,264</u>

* * * * *

COMBINING FUND
FINANCIAL STATEMENTS

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Balance Sheet
Nonmajor Governmental Funds
December 31, 2004

	<u>Special Revenue</u>	<u>Debt Service</u>	<u>Capital Projects</u>	
	<u>Township Improvement Revolving</u>	<u>Wastewater Treatment Plant Bonds</u>	<u>Cemetery Improvement</u>	<u>Totals</u>
Assets				
Cash and cash equivalents	\$ 41,027	\$ 21,190	\$ 4,750	\$ 66,967
Investments	146,243	-	85,315	231,558
Taxes receivable	-	19,459	-	19,459
Accounts receivable	-	-	2,650	2,650
<u>TOTAL ASSETS</u>	<u>\$ 187,270</u>	<u>\$ 40,649</u>	<u>\$ 92,715</u>	<u>\$ 320,634</u>
<u>LIABILITIES AND FUND BALANCES</u>				
Liabilities				
Accounts payable	\$ -	\$ 36,418	\$ -	\$ 36,418
Fund balances				
Unreserved:				
Designated for subsequent year expenditures	-	-	-	-
Undesignated	187,270	4,231	92,715	284,216
Total fund balances	187,270	4,231	92,715	284,216
<u>TOTAL LIABILITIES, AND FUND BALANCES</u>	<u>\$ 187,270</u>	<u>\$ 40,649</u>	<u>\$ 92,715</u>	<u>\$ 320,634</u>

WATERTOWN CHARTER TOWNSHIP, MICHIGAN
Combining Statement of Revenue, Expenditures and Changes in Fund Balances
Nonmajor Governmental Funds
For the Year Ended December 31, 2004

	Special Revenue	Debt Service	Capital Projects	
	Township Improvement Revolving	Wastewater Treatment Plant Bonds	Cemetery Improvement	Totals
Revenue				
Taxes and special assessments	\$ -	\$ 33,659	\$ -	\$ 33,659
Charges for services-cemetery	-	-	9,140	9,140
Interest and rentals	5,110	210	1,026	6,346
Total revenue	5,110	33,869	10,166	49,145
Expenditures				
Debt service:				
Principal	-	31,335	-	31,335
Interest	-	7,385	-	7,385
Total expenditures	-	38,720	-	38,720
Net changes in fund balances	5,110	(4,851)	10,166	10,425
Fund balances, beginning of year	182,160	9,082	82,549	273,791
Fund balances, end of year	\$ 187,270	\$ 4,231	\$ 92,715	\$ 284,216



REHMANN ROBSON

Certified Public Accountants

A member of THE REHMANN GROUP



February 11, 2005

To the Board of Trustees of the
Watertown Charter Township
Grand Ledge, Michigan

We have audited the financial statements of Watertown Charter Township for the year ended December 31, 2004, and have issued our report thereon dated February 11, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under Auditing Standards Generally Accepted in the United States of America

As stated in our engagement letter dated February 2, 2005, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance that the financial statements are free of material misstatement and are fairly presented in accordance with accounting principles generally accepted in the United States of America. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of Watertown Charter Township. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

Significant Accounting Policies

Management is responsible for the selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we advised management about the appropriateness of accounting policies and their application. The significant accounting policies used by Watertown Charter Township are described in Note 1 to the financial statements. No new accounting policies were adopted and the application of existing policies was not changed during the year. We noted no transactions entered into by Watertown Charter Township during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected. The most sensitive estimates affecting the financial statements were:

- Management's estimate of the useful lives of depreciable capital assets is based on the length of time it is believed that those assets will provide some economic benefit in the future. We evaluated the key factors and assumptions used to develop the useful lives of those assets in determining that they are reasonable in relation to the financial statements taken as a whole.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on Watertown Charter Township's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by Watertown Charter Township, either individually or in the aggregate, indicate matters that could have a significant effect on Watertown Charter Township's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as Watertown Charter Township's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no difficulties in dealing with management in performing our audit.

This letter and the accompanying memorandum is are intended for the use of the Board of Trustees, management, and federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

Very truly yours,

A handwritten signature in black ink, appearing to read "Lehmann Johnson", is positioned below the "Very truly yours," text.

Watertown Charter Township

Comments and Recommendations

For the Year Ended December 31, 2004

During our audit we became aware of certain issues regarding internal control and financial reporting. This memorandum summarizes our comments and suggestions regarding these matters. This memorandum does not affect our report dated February 11, 2005, on the financial statements of Watertown Charter Township.

Internal Control Review

As with other governments the size of the Township, segregation of duties is often difficult to implement. However, there are methods of segregating duties sufficiently to enhance the internal controls to an acceptable level. Recently, concerns have been raised by individuals in the Township regarding the proper level of controls. We strongly encourage the Township to consider performing a thorough review of all internal control processes. This may include the utilization of a consultant to give an outside view of the control processes.

* * * * *